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Investors get a whiff of spring in India

Investors have often shied away from India, citing the difficulties inherent in its notoriously difficult businesss landscape. Yet there is a lot of money to be made in India, **Dr S Narayan**, Senior Research Fellow of the Institute of South Asian Studies at the National University of Singapore, told *Perspectives@SMU.*

Many companies seem reluctant to carry out sufficient market entry analysis, he says, despite the policy changes now taking place in the world’s tenth largest economy.

Narayan attributes any difficulties in securing meaningful entry to a possible underestimation, or lack of knowledge in general, of the heterogeneity of India. The Indian market is vast and disparate.

In common with other geographically vast markets, like Russia and China, consumer tastes and behaviour vary according to the tastes of the regions comprising the market. The kinds of cars that sell in Mumbai, explains Narayan, will differ from those that will sell in Delhi, in much the same way as the food favoured by Delhi residents differs from that of their counterparts in Bangalore or Hyderabad.

Investors also seem oblivious to a more pressing reality: laws regulating business and commercial activities will also differ based on state or region, and can be as wildly divergent as tastes in cars and curries.

“Companies need to identify those states with rules and regulations that are more conducive for their particular goods and services,” says Narayan. “For example, Hyderabad and Bangalore make good choices for IT-related services.”

Meanwhile protectionist policies at both federal and state levels have been in force for a number of years and cover a huge range of industries in India, from airlines to the garment industry. However, this is gradually easing following two significant policy changes in 2013.

In July 2013, the Indian government decided to allow 100-percent foreign-owned investment in the retail, telecoms and insurance sectors. The reversal in policy follows the liberalisation of the airline industry, which took place three months earlier. One of the first investors to take advantage of the change was UAE-based Etihad Airways, which commenced negotiations to purchase a 24-percent stake in Jet Airways, India’s second largest airline by market share. If successful, it will be the first foreign investment in India’s aviation sector.

However India continues to lose out to countries like China, where foreign companies and investors seem to prefer that country’s state-directed rules and regulations. They find disconcerting India’s relatively inconsistent business environment, says Narayan.

Another hurdle for investors in the sub-continent, which coincidentally also favours China, is logistics.

“Infrastructure in India is still very poor and it’s easier to do business in China than India. China has the infrastructure, which means it’s easy to move goods from one place to another, and easier to handle goods at ports,” notes Narayan.

Despite the difficulties, Narayan maintains that investing and doing business in India is worth the headache.

“Companies tell me they are getting much better margins in India than in China.”

Sectors to watch

Narayan considers the financial services and Information Technology (IT) as having worthwhile prospects.

“The financial industry is itself a huge international business with activities running the gamut from bonds and equities investments through to financial intermediation”, he notes, adding that a boom in the service sector is possible.

While a booming service sector bodes well for India and its workforce of 487.6 million, the world’s second largest workforce, Narayan says that more skilled workers are needed to help the industry – and service sector employment – remain sustainable.

“Just because the workforce is literate doesn’t mean they are skilled. The school curriculum does not necessarily teach them skills, a fact that has led to a workforce that is desperately short of skills and skills development programmes in areas like accounting, finance and hospitality.”

However, at least one state government (in Delhi) has started partnering with institutions in Singapore such as the Institute of Technical Education to help close the skills gap.

The time has now come, says Narayan, to really start opening up the economy. “We have now reached a level where Indian companies are also more confident about tackling possible competition. So it’s time for the reform process to start.”

Of the inherent difficulty in managing change and policy reform, he remains optimistic. “Managing the reform process is difficult in the short term. But this is India we’re talking about and the opportunities for making money are very real and very substantial.”

Dr S Narayan was a speaker at the SMU India Initiatives Seminar "Challenges and strategies for doing business in India" which was held on July 18.